Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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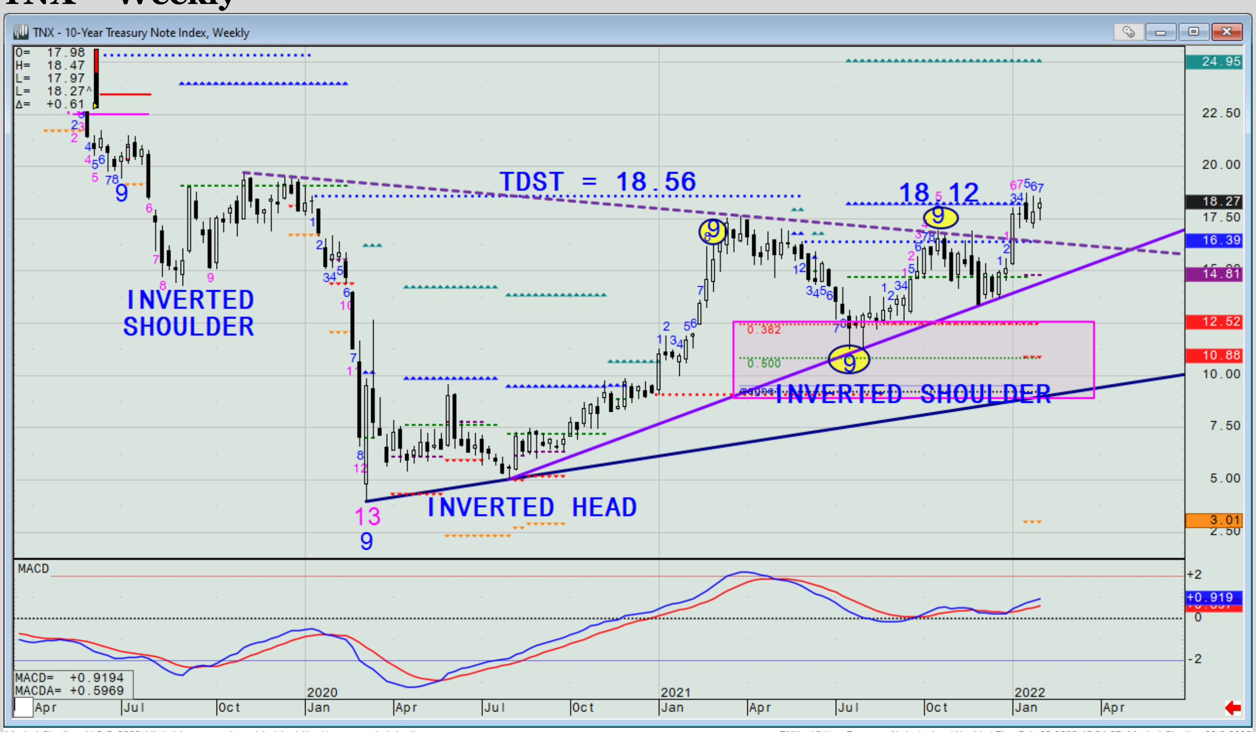
TACTICAL TRADER REPORT

The Macro Picture

Stocks staged a large rebound in the past week, but gave back a chunk of it yesterday as Meta's earnings miss saw the mega-cap name fall some 27% in a single day. (This is a prime example of why the TTR trades ETFs and not individual names.) Meanwhile, AMZN reported Q1 numbers after Thursday's closing bell, and the country's second largest employer saw its stock trade 14% higher in short order. (You having fun yet?)

In addition to earnings reports, investors remain focused on UST 10-yr. bond yields. Yesterday, they moved higher to 1.82%, and in my view, still need to get a breakout above the 1.86% level to suggest that the inverted head-and-shoulders pattern – which has already broken above its neckline – is the true thing marking a long-term rate bottom is in place. If/when that happens, I think yields should make their way up to 2.25% to 2.5% this year. Ultimately, the textbook target to the pattern measures up to ~3.25%.

TNX – Weekly

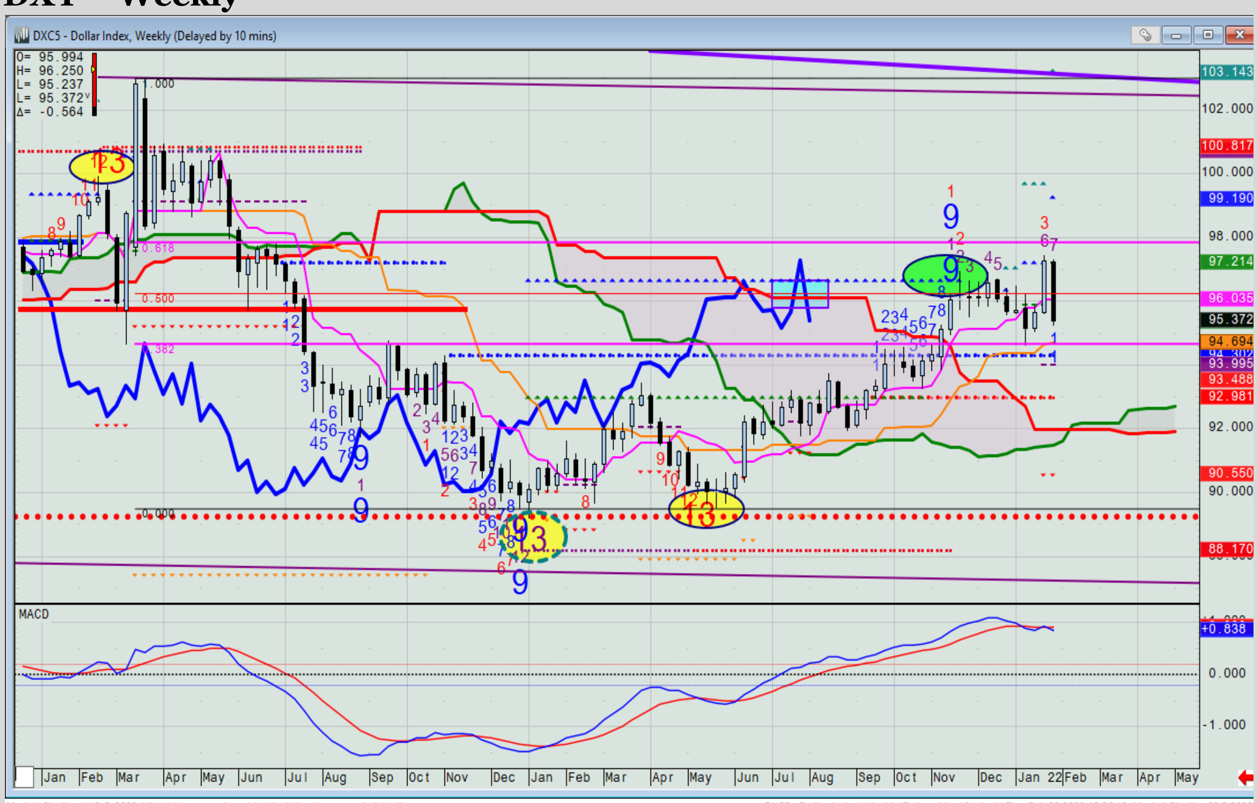


We've been all over the credit spread market – in its recent widening (and the likely negative implications for equities), as well as actually having a widening spread idea on as one of our trades.

The **ICE BofA Corporate Index Option-Adjusted Credit Spread** broke above the 1.04% resistance level that we have focused on for months, and got as high as 1.10% on Monday this week (not including Thursday's data which will be available this morning). I believe this can widen to the 1.33% to 1.46% area, and although this is nothing close to the 4% high we saw in March 2020, the move up should put some element of a lid on stock market rallies.

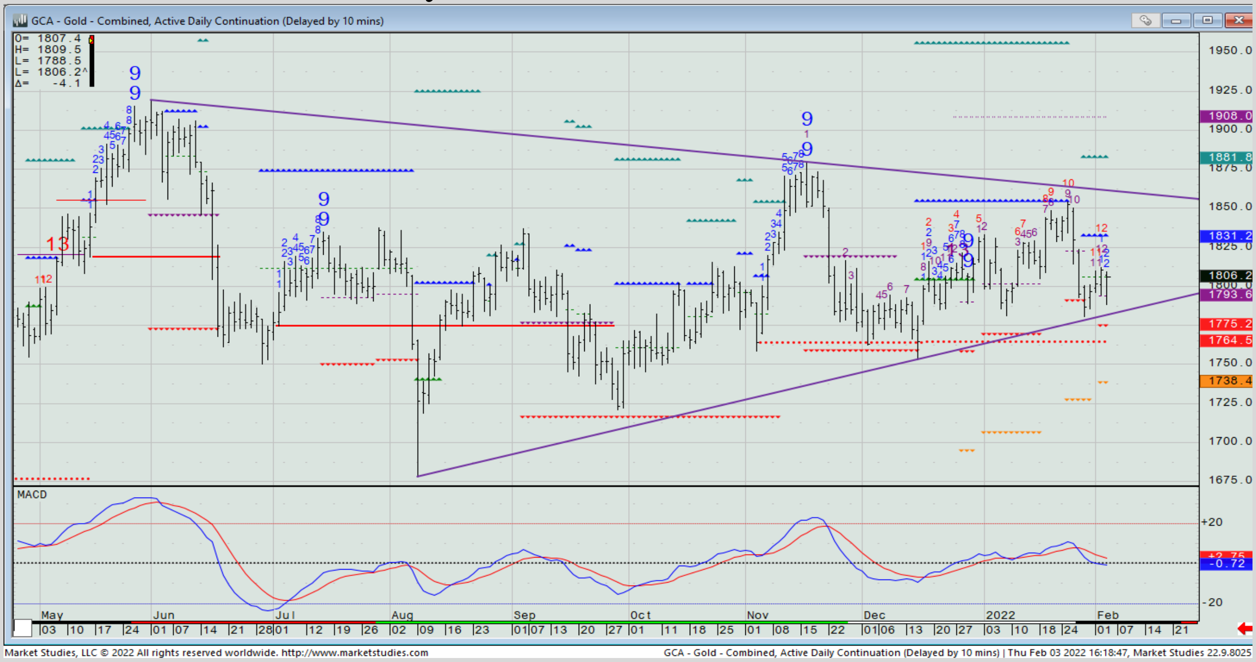
The US Dollar's weekly cloud breakout we wrote about last week appears to have been a false one, as the pullback is now back beneath the 96.10 breakout level. That surge and subsequent reversal lower might have been the final short squeeze to the whole rally. Let's watch how the couple of weeks play out to get a better clue on what's the true story here.

DXY – Weekly



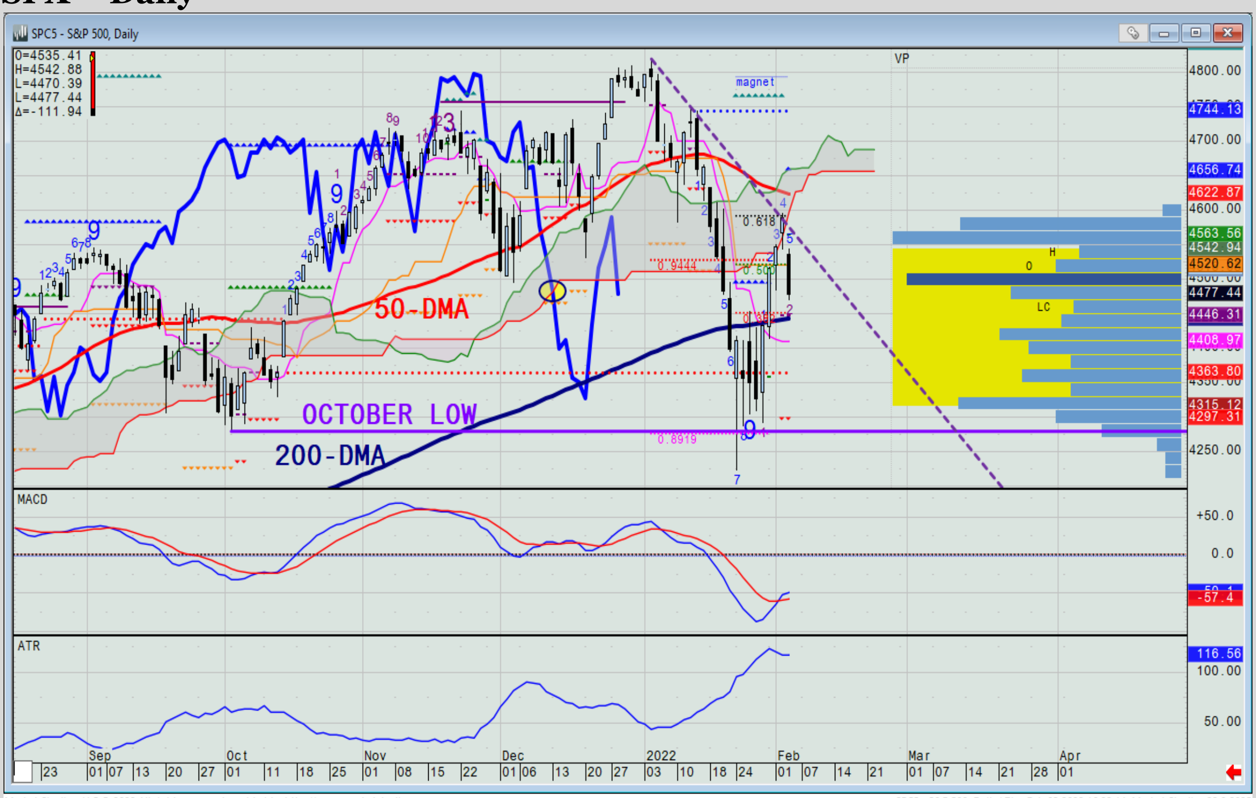
Gold remains in a medium-term sideways pattern and lacks any real trend (other than having no trend, which is in and of itself, a trend).

Gold Futures –Active Daily Continuation



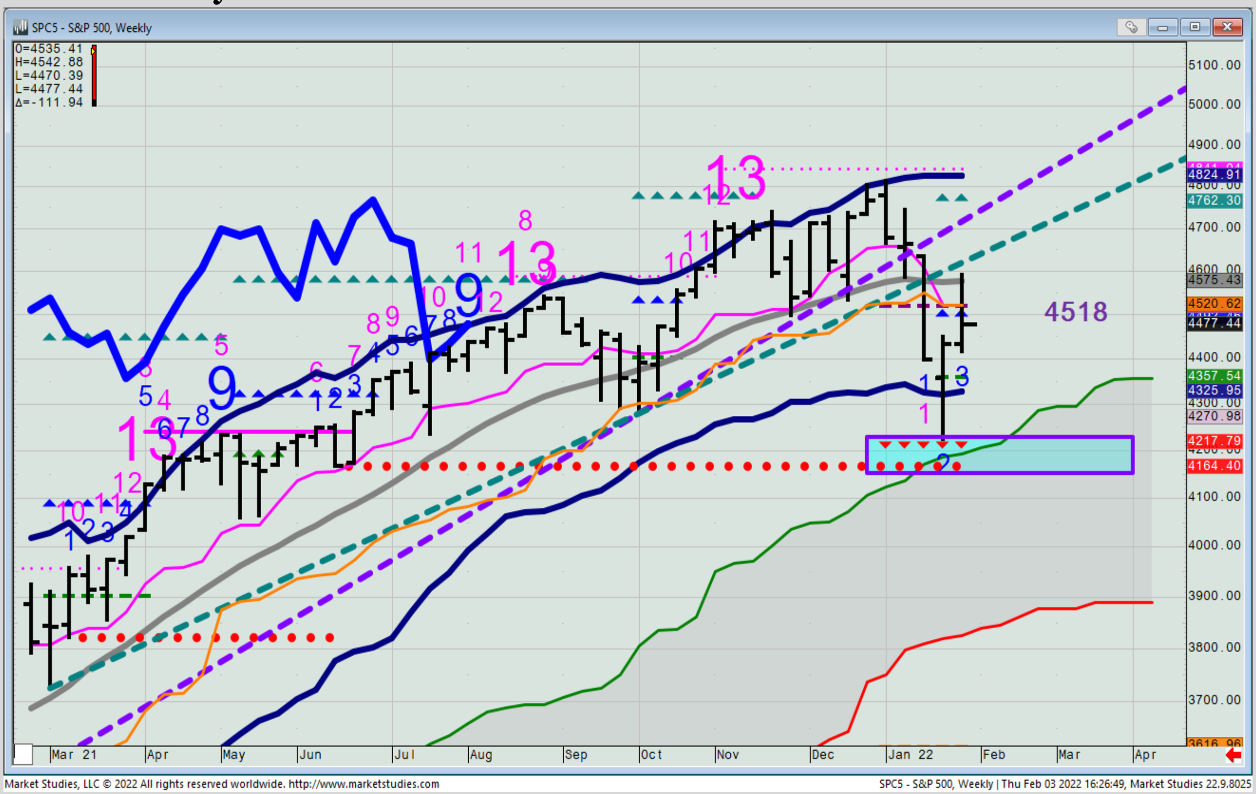
After the SPX bottomed two Mondays ago at just 4 points above its weekly Propulsion Exhaustion level, the rebound carried above the 4518 breakdown point (the intraday high of the bounce was 4595 right at the 62% Fibo retracement level), but yesterday's huge downdraft brought it back under there. For now, the weekly chart maintains its downward Setup count (on a -3 towards a potential -9), still keeping me fairly defensive on the rally from late-January lows.

SPX – Daily



Yesterday lost 2.44%. With the earnings numbers we've seen after Thursday's close, we might get a good chunk of that back today. In fact, day-to-day volatility remains very elevated, with the 10-DMA of the SPX's range of 114 points per day – some 2.5x what it was a month ago (and why last week I recommended that you cut your new trade position sizing in *half*).

SPX – Weekly



Last week I told you that I'd be selling into rallies to use that opportunity to clean out names in my portfolios that I simply don't need to own. I still haven't gotten rid of all that I need to, but it definitely feels better to have a less cluttered portfolio. I recommend you do the same.

THIS WEEK'S NEW TRADE IDEA

Volatility is clearly higher than we've seen in a while – not just in VIX terms, but in looking at the increased average daily swings we see. As such, this week's idea I will put into a "trader's trade" category, playing the likelihood of a short-term continuation of the current Setup count higher. Here's what I'm seeing:

The **Russell 2000 ETF (IWM)** was the worst performing of the four major US equity indexes last year, but did bottom two Mondays ago like the other indexes did. But unlike them, this one got a -13 signal (TD Combo) just before the low was made.

So, if today is trading above bar Setup +1's close ($201.24) in the last few minutes of the trading session, we'll buy one unit of IWM then – looking for this to finish out its +9 count on Thursday next week. (It will need to keep closing above the close from four days prior for this to pan out.)

If today doesn't close above $201.24, we won't enter this trade. If we do get entry, then we will stop out on any day's close that is not above the close from four days prior. (Yup, this is only intended to be a four day hold. See chart on top of page 5.)

IWM – Daily

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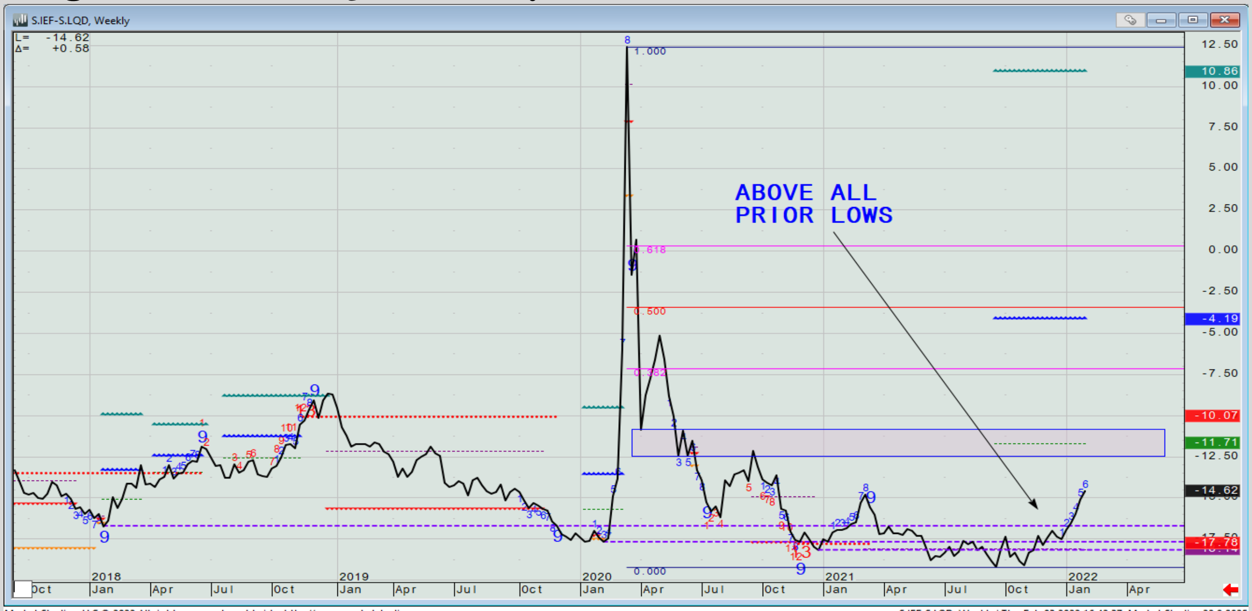
Other Open Recommendations and Positions

Long iShares 7-10 Year Treasury Bond ETF (IEF) vs. short the iShares Investment Grade Bond ETF (LQD)

Last week we bought Treasuries (IEF) and sold Corporate Bonds (LQD) against them, at an approximate differential of in price of the two ETFs of about -$15.34. We are looking for the credit spread to widen, which translates to the price of IEF becoming less negative to the price of LQD. We will use the ICE BofA spread's movement to determine when we will exit this trade, looking for it to target the 1.34% to 1.46% range – something we can more finely tune when we get closer to that target. We will also stop ourselves out on a couple of days in a row that the ICE BofA spread closes beneath 95 bps. – it's recent pullback low before the breakout.

Long IEF vs. Short LQD – Weekly

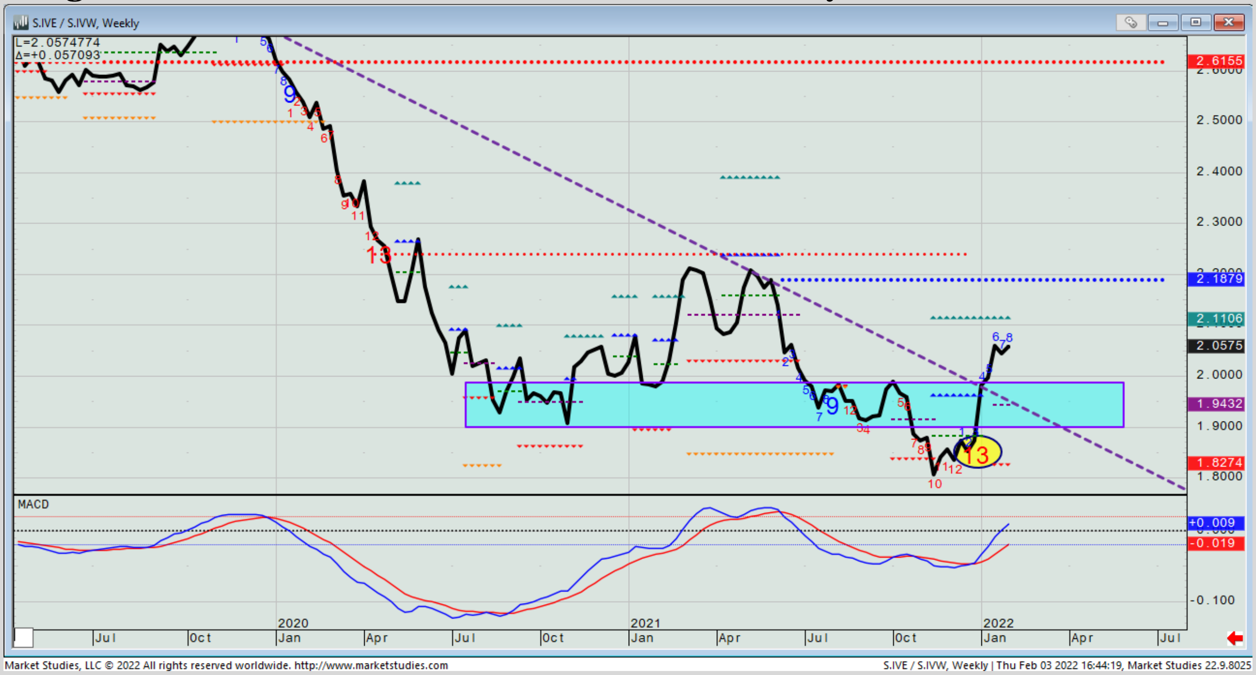


Market Studies, LLC © 2022 All rights reserved worldwide. http://www.marketstudies.com S.IEF-S.LQD, Weekly | Thu Feb 03 2022 16:42:37, Market Studies 22.9.8025

Long IVE (Value) vs. Short IVW (Growth)
We started to enter a position in this two weeks ago, putting on a ¼-unit of this pair (avg. price of 2.047) and were looking to add another 50% position within the highlighted box value (approx. 1.98 to 1.90), and the final 25% at 1.855 to 1.852. That's making a bet that the cyclical low is in place.

I'm changing our game plan on this to simply move our sell-stop up on this small position to where we got in (i.e., 2.047). I'll continue to see if we want to re-establish the position in the future if it pulls back.

Long IVE (Value) vs. Short IVW (Growth) – Weekly



Long SPDR Energy (XLE) vs. Short SPDR Industrials (XLI)
Two months ago, we entered this pair trade by going long one unit of XLE and short one unit of XLI (avg. entry price of 0.5433). Last week we took half off at our first target of 0.65 +/- 0.0030, and I will again raise our sell-stop to unwind the remaining half on consecutive Friday closes < 0.6458.

Long XLE vs. Short XLI – Weekly

Suggestions and Explanation of Terms

With every major firm brokerage firm having gone to $0 domestic stock/ ETF commissions, you should <u>not be paying anything</u> to trade my recommendations (other than the associated fees to placing a short position we occasionally recommend).

Cloud Charts (a.k.a. "Ichimoku")
"Cloud" charting is a far-eastern technical model that was developed over 50 years ago, but is still not commonly used in the US (nor is there much reference material available on it, either). The calculations involved in the construction of each of the 5 lines that make up this model are simple math (see below). The proper understanding and use of cloud charts are still somewhat a mystery to many in the western world. We, however, have a deep understanding of this model, and use it as a core component to our market analysis.

The names and calculations of the 5 lines are as follows:
- Conversion Line: the arithmetic midpoint of the most recent 9 price bars (inclusive of the current bar).
- Base Line: the arithmetic midpoint of the most recent 26 price bars (inclusive of the current bar).
- Leading Span 1: the midpoint of the previously calculated Conversion and Base Lines, plotted forward 26 bars (including the current bar).
- Leading Span 2: the arithmetic midpoint of the most recent 52 price bars (including the current bar) plotted forward 26 bars (including the current bar).
- Lagging Span: the current price plotted backwards 26 bars (including the current bar).
- The "Cloud" is the area on the chart bounded by the two Leading Spans.

In any given timeframe, it is our interpretation of the relationship of a security's price to these five lines -- and the relative positions of these lines to each other -- that helps us decipher behavioral and/or structural shifts to the current bull or bear market environment at hand.

DeMark Studies (a.k.a. TD models)
DeMark Studies consist of models created by Tom DeMark, a noted market-timing indicator developer and consultant to many major Wall Street institutions. Two of these models that look for the timing of trend exhaustion include TD Sequential and TD Combo. A third, TD Propulsion, looks for a specific price exhaustion level after a trend momentum level has been properly identified and thrust through.

Some key phrases we use in our writings include:
- TD Setup: Nine consecutive price bars that the closing price is above the close from four bars prior (a.k.a. "Setup +9"). When completed and "perfected" (i.e. the 8th or 9th bar's high is higher than both bar 6's and 7's highs), a near-term **top** may be in place. Conversely, is a run of nine consecutive price bars that the closing price is beneath the close from four bars prior (a.k.a. "Setup -9"). When completed and "perfected" (i.e. the 8th or 9th bar's low is lower than both bar 6's and 7's lows, a near-term price **bottom** may be in place.
- TD Sequential: After a completed Setup +9 count, if the security continues to move higher by a certain amount, a full trend has developed. This model looks to identify the exhaustion point of that trend, from a timing perspective. Here's how: Subsequent to the Setup +9, the model then looks for 13 price bars (that needn't be consecutive) that the closing price is greater than the high from two price bars back. When this happens, odds have increased that first buying within the current uptrend is much riskier than normal; some choose to actually lighten long exposure, too. Some aggressive traders even choose to initiate short exposure. Conversely, after a Setup -9 count, the model then looks for 13 price bars (that needn't be consecutive) that the closing price is less than the low from two bars back. When this happens, odds have increased that first selling within the current downtrend is much riskier than normal; some choose to actually lighten short exposure, too. Some aggressive traders even choose to initiate long exposure. **Thus, some aggressive-style accounts often use this model to take profits or even enter new counter-trend positions.**
- TD Combo: This is a sister timing model to the above –mentioned Sequential model. It also reaches its trend exhaustion reading at a +13 or -13 reading. It counts to the 13th bar using a different calculation than Sequential. But it's potential implications for an impending trend reversal are the same.
- TD Propulsion: This model looks to define the initiation of a momentum move (whether higher or lower). Once the identified Propulsion Momentum level is properly surpassed, it then pinpoints measured exhaustion levels for that same breakout or breakdown move (i.e. Propulsion Exhaustion and Full Propulsion Exhaustion).
- TD Trend Factors: This model looks to define important support or resistance levels from previous highs or lows of moves, measured in increments of 5.56%. (This particular number is a derivative of the Fibonacci sequence of numbers.)

- "Qualified and Confirmed" Breakouts (**Updated**):

  To qualify and confirm an upside breakout of some level we reference, the following need occur, in order:
  1. A down close the price bar immediately before closing above the reference level
  2. The actual close above the reference level
  3. A gap higher open; a higher daily high; and a higher daily close the next trading day.

To qualify and confirm a downside breach of some level we reference, the following need occur, in order:

1. An up close the price bar immediately before closing beneath the reference level
2. The close beneath the reference level
3. A gap lower open; a lower daily low; and a lower daily close the next trading day.

Thus, the qualified and confirmed process takes 3 consecutive price bars to create the signal.

Disclaimer